



## Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

## THE CASE OF THE DANNER-KRAFT DRY GOODS COMPANY <sup>1, 2</sup>

This company is a wholesale dry goods concern located in the southwest. Application for a loan was sought in Chicago late in 1919. The following credit information was used by the Chicago bank in deciding upon the advisability of extending credit.

### I. REPORTS OF MERCANTILE AGENCY, DATED DECEMBER 31, 1914, AND JANUARY 23, 1915

Danner-Kraft Dry Goods Company . . . . . Camden, Arkansas

Nathan T. Danner, <i>President</i>	W. R. Graham, <i>Vice-president</i>
P. J. Brooks, <i>Vice-president</i>	Nathan T. Danner, Jr., <i>Vice-president</i>
D. W. Danner, <i>Vice-president</i>	P. B. Kraft, <i>Secretary</i>

*Directors.*—The same with A. R. Kraft, P. S. Drake, R. C. Lansing, A. W. Brown, R. J. Swift, M. Lewis, F. B. Harper.

*Antecedents.*—Business was incorporated under the laws of Arkansas, July, 1902, as Brand-Danner Dry Goods Company. N. T. Danner was formerly in the general merchandise business at Norris, Arkansas, removing to Camden, prior to 1893 first engaging in wholesale grocery business with T. J. Brand, later discontinued grocery business and Brand-Danner Dry Goods Company was formed and continued until April, 1913, when N. T. Danner and others bought T. J. Brand's interest and name of business was changed to Danner-Kraft Dry Goods Company.

The president devotes all of his time to this business and is estimated worth outside of this investment \$200,000.

P. J. Brooks, vice-president, devotes his entire time to this venture, and is estimated worth \$100,000.

D. W. Danner, vice-president, devotes all his time to this venture, but is worth little outside his interest in this business.

Nathan Danner, Jr., vice-president, devotes all his time to this venture and is worth but little outside of his interest here.

P. B. Kraft, secretary, is engaged in the general merchandise business with his brother A. R. Kraft at Hinton. They are also engaged in the manufacture of trunks, both here and at Cedarville, Iowa, and are worth separately about \$50,000. P. B. Kraft gives all his time to this venture while A. R. Kraft manages the business at Hinton.

<sup>1</sup> Copyright, 1922, by the University of Chicago.

<sup>2</sup> The *Journal* will print, from time to time, cases and problems for class use. The Danner-Kraft Dry Goods Company case is the fourth of this series. Arrangements have been made with the University of Chicago Press to make reprints of this case available for class use at 20 cents per copy.

P. S. Drake is engaged in brokerage business and is estimated worth \$65,000.

R. C. Lansing is in life insurance business here and is estimated worth \$75,000.

A. W. Brown is estimated worth \$30,000.

R. J. Swift is a merchandise broker here and estimated worth \$20,000.

M. Lewis gives his entire time to the venture and estimated worth \$5,000.

*Fire records.*—Learn of no fire losses.

*General remarks.*—The affairs of this concern are under capable management being in the hands of P. B. Kraft, P. J. Brooks, and N. T. Danner. All are favorably regarded personally and prospects appear favorable.

Below are summaries of former statements drawn up in an old style:

Date	Assets	Liabilities	Capital Stock
January, 1910.....	\$903,500	\$903,500	\$200,000
January, 1911.....	850,605	850,605	200,000
January, 1912.....	917,783	917,783	500,000

Following are summaries under present style:

Date	Assets	Liabilities	Capital Stock	Surplus Stock
April, 1913.....	\$ 895,480.70	\$ 895,480.70	\$500,000	\$27,503.15
January, 1914.....	1,047,041.27	1,047,041.27	500,000	64,350.35

The following is a copy of their typewritten and signed statement showing the condition of business December 31, 1914:

#### Resources

Merchandise per inventory . . . . .	\$ 530,899.44
Accounts and bills receivable . . . . .	571,962.45
Cash on hand and in banks . . . . .	156,196.73
Furniture and fixtures . . . . .	20,490.18
Live stock . . . . .	1,399.50
Stationery on hand . . . . .	1,500.00
Premiums on unexpired insurance . . . . .	2,347.67
Interest and unexpired bills payable . . . . .	4,736.10
Real estate and personal property. . . . .	9,996.49

Total . . . . . \$1,299,528.56

Present worth:

Net gains for 1914 . . . . .	\$ 56,932.31
Old surplus . . . . .	64,350.35

Total . . . . .	\$ 121,282.66
Less dividends paid . . . . .	50,000.00

Net surplus to date . . . . .	\$ 71,282.66
Capital stock . . . . .	500,000.00

Capital and surplus . . . . . \$ 571,282.66

*Liabilities*

Accounts and bills payable . . . . .	\$ 728,245.90
Capital and surplus . . . . .	571,282.66
Total . . . . .	<u>\$1,299,528.56</u>

(Signed)

N. T. DANNER, *President*P. B. KRAFT, *Secretary*

The foregoing statement is considered a true reflection of their books and it will be seen by statement they have made money during the past year, and the affairs of the company seem to be carefully and capably managed.

Those identified with this company are regarded honorable and straightforward in their dealings and men of good business ability.

Although collections have been slow and trade quiet for some time, still they seem to enjoy their share of the trade in this line and are watching their accounts closely. Have all along had the name of discounting their purchases and paying promptly and enjoy high credit.

## II. TRADE INFORMATION COLLECTED BY MERCANTILE AGENCY

The following New York trade information was obtained on March 18, 1915. Investigations in the trade at this date finds twenty houses, selling to this concern, report as follows:

1. Sold the account in amounts averaging \$100, terms 2-10, sixty days. Payments met in a fairly prompt manner; owe about \$75, which is not due.
2. Sold the account in the latter part of 1914, in amounts averaging \$250, terms sixty days. Payments forty-eight days slow.
3. Sell the account in amounts averaging \$1,000, terms 2-10, sixty days. Payments inclined to be a little draggy; owe a few hundred dollars which is not due.
4. Sold the account in amounts averaging \$500 to \$600, terms 2-10, sixty days. Payments from prompt to ten days over.
5. Sell the account in amounts averaging \$1,000 on regular terms. Payments prompt to fairly so; owe a few hundred dollars which is not due.
6. Sold the account last year in amounts averaging \$1,800 on regular terms. Payments prompt; owe nothing at the present time.
7. Sell the account in amounts averaging \$1,000 on regular terms. Payments prompt to a few days over; owe about \$500 which is not due.
8. Sell the account in amounts averaging \$2,000 on regular terms. Payments prompt; owe a few hundred dollars which is not due.
9. Old active account, sold last fall in amounts averaging \$6,000. Payments a little draggy; owe nothing at the present time.
10. Sold the account for some time past, purchases averaging \$5,000 to \$10,000, on regular terms; owe a couple thousand dollars which is not due.

11. Sell the account in amounts averaging \$2,000 to \$2,500 on sixty-day terms. Payments a little slow; owe about \$500 which is not due.

12. Sell the account in amounts averaging a couple of thousand dollars on regular terms. Payments prompt; owe nothing at the present time.

13. Highest credit averaging about \$800 on regular terms. Payments prompt to a little slow; owe nothing at the present time.

14. Sold the account for some time past, purchases averaging about \$6,000 on regular terms. Payments prompt; owe a few hundred dollars which is not due.

15. Sell the account in amounts averaging \$1,500 on regular terms. Payments prompt; owe nothing at the present time.

16. Sold the account for some time, past purchases averaging a couple of thousand dollars on regular terms. Payments met in a fairly prompt manner; owe a few hundred dollars which is not due.

17. Sold the account for some time, past purchases averaging \$1,200 \$1,500, terms 7-10, sixty days. Payments met in a fairly prompt manner, owe about \$1,000 which is not due.

18. Sell the account in amounts averaging about \$1,500; on regular terms. Payments prompt to fairly so.

19. Sells the account in amounts averaging \$5,000 on terms 2-10, sixty days. Payments inclined to be a little slow.

20. Old active account running \$12,000 to \$20,000 on regular terms. Payments reported strictly prompt. Owe a couple thousand dollars, which is not due.

This is a good concern, composed of honorable and straightforward people. They do a large business, and have a large amount due them in the way of outstandings. Owing to the existing conditions, collections are slow, and this has made them take full time on many of their purchases. They are, however, deemed responsible and enjoy first-class credit.

### III. REPORT OF MERCANTILE AGENCY, DATED FEBRUARY 26, 1919

N. T. Danner, *President*

P. J. Brooks, *Vice-president*

D. W. Danner, *Vice-president*

W. R. Graham, *Vice-president*

R. M. Walker, *Vice-president*

P. B. Kraft, *Secretary-treasurer*

The foregoing officers, together with W. H. Danner, A. R. Danner, R. J. Swift, F. B. Harper, A. R. Kraft, M. Lewis, P. S. Drake, and B. W. Swift, compose the Board of Directors.

N. T. Danner, Sr., one of the founders of this corporation, died on June 1, 1917, and up until the first of February a committee was appointed to handle the business, until annual stockholders meeting which was held on the second instant, when N. T. Danner, Jr., son of N. T. Danner, Sr.,

deceased, was elected president to succeed his father. He was formerly one of the vice-presidents and R. M. Walker succeeded him to that office.

The personnel of the corporation is among the best in the city, its affairs are under capable management, and they are credited with steady progress.

Date	Assets	Liabilities	Net Worth
December, 1914.....	\$1,299,428.56	\$728,245.00	\$571,183.56
December, 1915.....	1,046,430.38	476,170.13	570,260.25
December, 1916.....	1,096,304.36	441,050.09	655,254.27
December, 1917.....	1,327,255.61	620,191.08	707,064.53

*General information.*—In conversation P. B. Kraft stated verbally that the inventory was based upon the present market value, that their monthly statement as of December 1, 1918, showed their merchandise on hand to be worth at cost price about \$1,250,000. He also stated that the receivables covered accounts and notes that were absolutely good.

Statement is accepted as a true reflex of their books, the management is capable of doing an extensive business in this state, parts of Louisiana, Oklahoma, and Texas, and travel a number of salesmen.

*Payments.*—Their paper is readily accepted by bankers and brokers, and they enjoy high credit in trade circles.

*Fire record.*—No fire loss.

#### IV. REPORT OF ST. LOUIS OFFICE OF CHICAGO COMMERCIAL PAPER HOUSE

##### a) October 17, 1919

In the inclosed statement the proportion of quick assets to liabilities is not very attractive. However, this is the most unfavorable showing that they have made for several years. They say that the new statement will show a ratio in excess of two for one. They keep their accounts at the following banks:

Exchange National Bank, Camden, Arkansas  
 North American National Bank, Camden, Arkansas  
 Mercantile Trust Co., Camden, Arkansas  
 Second National Bank, St. Louis, Missouri  
 First National Bank, New York  
 National City Bank, New York  
 Chemical National Bank, New York

The company is well regarded in the trade.

The National Bank of Commerce, St. Louis, is not very favorably impressed with the company and does not buy the paper at present. One of their criticisms is that upon the death of N. T. Danner, Sr., president of the company, in 1917, his son, N. T. Danner, Jr., had himself elected president through a majority ownership of the stock and was not recom-

mended to the position through his experience or ability, which, as yet, has not been sufficiently tested.

Another criticism of the firm is their policy as reflected in the inclosed letter which is a copy of one sent to all of the customers last November.

The company will probably make some arrangement for the handling of their paper in the Western market about November 1, and we trust that you will be able to let us know if it is anything we want, by that time.

b) Circular Letter Referred to Above

CAMDEN, ARKANSAS  
November 22, 1918

TO OUR CUSTOMERS:

The United States Government is now demobilizing four million United States soldiers, who will have to buy civilian clothes here in the United States. The Allies have taken over the ships of Germany and Austria, and we are sure it will be only a matter of a short time when these ships, together with our great fleet, will be used for carrying merchandise from this country to Europe, to supply the demand of millions of people who are anxious to buy merchandise from the United States. This will naturally create a great scarcity of all kinds of merchandise.

In view of the above, and the fact that we have always tried to save you paying the advance each season on your bill of dry goods, we believe now is the time for you to allow us to book you for your spring bill, styles and quantities of goods to be selected by you in our house any time between now and the first of March, 1919.

If you will fill in the agreement on the opposite side of this sheet, stating about the amount of goods you will need for your spring business, we will guarantee the price and book them for you at the lowest market prices. If the goods decline, we will lower these prices, and if they advance, we will give you the benefit of the low price. We are anxious for your spring business, and we are sure that this is a fair proposition and a good business proposition for you.

This being a fact, we hope you will return this letter, properly filled in, at once or not later than December 5, 1918, using the inclosed stamped envelope, in order that we may protect your interest.

Yours very truly,

DANNER-KRAFT DRY GOODS COMPANY

c) October 24, 1919

*Credit department.*—Referring to the paper of the Danner-Kraft Dry Goods Company of Camden, Arkansas, Mr. Fred Exeter advised me today over the telephone that young Mr. Danner was a good personal friend of his and that he introduced him to the Fourth National Bank of St. Louis, of which he is a Director, thinking it would make a good account for the bank, although at that time he knew nothing about the details of

the business, nor did he know that the company already had an account with the Commercial National Bank of St. Louis, which bank granted the company a line of \$150,000.

The Fourth National Bank, after a careful investigation, decided not to take on the account.

Mr. Exeter today spoke to Mr. Townley, vice-president of the Second National Bank, who handles the account of the Danner-Kraft Dry Goods Company, relative to the affairs of the company, Mr. Townley says that the Commercial National Bank has decided to continue their line of \$150,000, that the company carries good balances and cleans up its line regularly. Mr. Townley recently went to Camden to look over the plant of the company. He says that the company is fighting its local competitor very hard and at time sells goods below cost in an effort to get the better of the company, which he does not consider good business. On account of the way in which they handle themselves he is not any too enthusiastic about the company.

Their paper at the bank is guaranteed by Messrs. Brooks, Kraft, and Danner. Mr. Brooks is worth \$200,000 to \$250,000; Mr. Kraft \$75,000 to \$100,000; while the Danners have all of their money in the business and own controlling interest.

Cluett & Company gave up the account because on top of a statement showing current assets of about  $1\frac{1}{2}$  for 1, immediately after date of the statement they paid out dividends of \$75,000, absorbing practically all of the previous year's profits.

Mr. Exeter's own impression is that he would rather not take on the account at the present time.

This information is, of course, confidential and not to be given out.

#### d) Bank Testimonials

*Chemical National Bank, New York, October 27, 1919.*—Mr. Roth stated that they have had this account for a great many years and think very highly of same. The last statement in their files shows a very heavy debt and less than the usual proportion of two to one. In this statement they had a very large merchandise item and a few weeks ago received a letter from Mr. Kraft stating that they had turned over all of this merchandise at a very good profit and the new statement should show a very good proportion. We have loaned this company as high as \$200,000 in 1918 and they were off the books all this year until the first of August when they came on for \$50,000 which they are owing today. Hargraves & Co. have had this account in the past but I have not seen it very recently. If you can get this business it should make a very good and profitable account for you. This business is based entirely upon conditions of the cotton crop. The notes are indorsed.

*First National Bank, New York, October 27, 1919.*—Mr. Clifton said they have had this account for a number of years and think very highly



of the concern. Thinks it would be a good account for us if we could secure it.

V. CREDIT FILE CORRESPONDENCE IN 1915, RELATIVE TO A  
LOAN APPLICATION

*National German Bank, Camden, Arkansas, April 19, 1915.*—We are pleased to advise you that we think well of this concern, and believe their paper in reasonable amounts a safe and desirable bank investment. Their financial statement showing condition as of December 31, 1914, indicates that their affairs are in good shape and that they are meeting with success. We extend to them a nice line of credit, and in the past they have been very prompt in taking care of their maturing obligations. The officers in charge of the company are men of ability, honesty, etc., and their success should be continued.

*Commercial Bank, Camden, Arkansas, April 19, 1915.*—This is an old, well-established concern of ample capital, doing a conservative and profitable business. They have been clients of ours for a number of years; and we regard them very highly.

*Exchange National Bank, Camden, Arkansas, April 19, 1915.*—I am pleased to say that this company is a value customer of this bank. We are pleased to extend them a liberal line of credit upon the note of the company indorsed by Mr. N. T. Danner, Mr. P. B. Kraft, and Mr. P. J. Brooks. These gentlemen give the business their personal attention, and are looked upon as careful and conservative business men.

*First National Bank, New York, April 19, 1915.*—The Danner-Kraft Dry Goods Company has had an account with us since it succeeded the Brand-Danner Dry Goods Company in May, 1913, and we had the account of the latter from 1901. The present concern has carried quite a substantial balance with us during the past few months, and we loaned it up to \$150,000 last fall. The line was off our books from February 4 to May 29 last, and is again being reduced. The new figures, which probably you have, show but little gain and a considerable increase in the debt, both of which features we had reason to expect from the conditions existing in that section. The company claims, however, that its affairs are in good condition, and that while it is compelled to carry many of its customers as well as an excessive stock of merchandise, a more favorable season will reduce the figures again to proper proportions. We still think the company's note a proper risk.

*Chemical National Bank, New York, April 19, 1915.*—During the past year we have been pleased to meet this company's borrowing requirements up to \$150,000, in proportion to which commensurate balances have been maintained. As you doubtless know, their section of the country is materially affected by the movement of the cotton crop; and in view of unsatisfactory conditions which have prevailed in its line the company's earnings have naturally been restricted. However, its recent statement indicates

some increase in surplus account after various charges against income as well as the payment of a common stock dividend. We are well impressed with the management, and know of no reason why the paper in moderate amounts should not be purchased.

*Commercial National Bank, St. Louis, April 19, 1915.*—The company referred to in yours of the sixteenth instant has been a customer since the spring of 1914. Their predecessor had previously been known to us and we had occasionally taken the note when offered on the market. We accord the present company a line of accommodation and have found them prompt in taking care of their obligations. They have a well-established trade and while the past year was not entirely satisfactory in volume or profits, owing to general conditions, of which you are aware, we find this company's condition sound, as evidenced by their statement of December 21. The close of the year found them with more than the usual amount of merchandise on hand, but from what we know of conditions surrounding them, it is our belief that they will be able to move their stock without difficulty. Their note bears the indorsement of several officers, who are believed to add something to its strength.

## VI. RECENT BALANCE SHEETS

December 31, 1918

*Assets*

## Current assets:

Cash . . . . .	\$123,379.02	
Liberty Bonds . . . . .	\$ 96,350.00	
Less unpaid instalments . . . . .	43,000.00	
	<u>53,350.00</u>	
Customers' notes and accounts receivable after allowing for doubtful accounts . . . . .	745,579.66	
Merchandise inventory . . . . .	902,155.51	
	<u>\$1,824,464.19</u>	

## Other assets:

Personal and miscellaneous notes and accounts receivable . . . . .	\$ 3,156.21	
Sundry claims and accounts . . . . .	4,388.76	
Other real estate . . . . .	10,689.18	
	<u>18,234.15</u>	

## Permanent:

Land and building . . . . .	\$ 80,000.00	
Less unpaid balance on purchase contract . . . . .	70,000.00	
	<u>\$ 10,000.00</u>	
Fixtures and equipment . . . . .	11,851.23	
	<u>21,851.23</u>	

## Deferred:

Prepaid interest, insurance, etc. . . . .	18,184.29	
	<u>\$1,882,733.86</u>	

*Liabilities*

## Current:

## Notes payable—for money borrowed—

Through brokers . . .	\$500,000.00	
From banks . . .	350,000.00	
From individuals . . .	101,020.00	
	<u>          </u>	\$951,020.00

## Accounts payable

Trade creditors . . .	\$ 46,654.01	
Personal accounts . . .	26,410.57	
	<u>          </u>	73,064.58

Accrued accounts . . .	15,923.92	
	<u>          </u>	\$1,040,008.50

## Reserve:

For federal income and war profits taxes (estimated) . . .		130,000.00
---	--	------------

## Nominal:

Capital stock—authorized and issued . . .	\$500,000.00	
Profit and loss—surplus		
Balance		
December 31,		
1917 . . .	\$210,014.53	
Premium on		
treasurer's		
stock sold . . .	1,475.00	
	<u>          </u>	\$211,489.53
Profit from operations for		
the year before providing		
for federal		
taxes . . .	\$205,793.33	
Less reserve		
for federal		
taxes . . .	130,000.00	
	<u>          </u>	75,793.33
		<u>          </u>
		\$287,282.86
Dividends paid February		
15, 1918 . . .	74,557.50	\$212,725.36
	<u>          </u>	<u>          </u>
		\$1,882,733.86

NOTE A.—Merchandise purchases in transit or in the house for spring of 1919 business aggregating \$229,761.16 are not included in the inventory or accounts payable.

NOTE B.—A dividend of 15 per cent amounting to \$75,000.00 was declared February 8, 1919.

We hereby certify that we have audited the books of account and record of the Danner-Kraft Dry Goods Company, Camden, Arkansas, as

of the close of business December 31, 1918, and that, in our opinion, based upon the records submitted and information furnished us, the foregoing Condensed Balance Sheet is drawn up so as to reflect correctly the financial position of the company at December 31, 1918.

ST. LOUIS

February 20, 1919

AUDITORS

November 30, 1919

*Assets*

Current:

Cash . . . . .	\$110,527.73	
Liberty Bonds and notes and war savings stamps . . . . .	17,311.47	
Customers' notes and accounts receivable after allowing for doubtful accounts, discounts, etc. . . . .	828,320.67	
Merchandise inventory . . . . .	519,800.95	
	<u>                    </u>	\$1,475,960.82

Other assets:

Personal and miscellaneous notes and accounts receivable . . . . .	\$ 6,180.40	
Sundry claims and accounts . . . . .	1,037.69	
Other real estate . . . . .	12,188.20	
	<u>                    </u>	19,406.29

Permanent:

Land and building . . . . .	\$ 80,000.00	
Less unpaid balance on purchase contract . . . . .	65,000.00	
	<u>                    </u>	\$ 15,000.00
Less allowance for depreciation . . . . .	5,060.00	
	<u>                    </u>	\$ 9,940.00
Building improvements, fixtures, and delivery equipment (depreciated value) . . . . .	\$ 22,689.32	
	<u>                    </u>	32,629.32

Deferred:

Prepaid interest, insurance, etc. . . . .	4,091.36	
	<u>                    </u>	<u>\$1,532,087.79</u>

*Liabilities*

## Current:

Notes payable—for money borrowed—

Through brokers . . .	\$ 90,000.00	
From banks . . . .	60,000.00	
From individuals . . .	90,750.00	
	<u>          </u>	\$240,750.00

Accounts payable

Trade creditors . . .	\$199,793.09	
Unpaid instalment on federal taxes for the year ended December 31, 1918 . . . . .	30,745.12	
Personal accounts . . .	80,905.34	
	<u>          </u>	311,443.55

Accrued accounts . . . . .	<u>12,392.93</u>	\$ 564,586.48
----------------------------	------------------	---------------

## Reserve:

For federal income and profits taxes (estimated) . . . . .		\$ 130,000.00
---	--	---------------

## Nominal:

Capital stock—authorized and issued . . \$500,000.00

Profit and loss—surplus

Balance, December 31, 1918 . . . . .	\$212,725.36
---	--------------

Profit from operations on  
net sales of \$3,359,743.18  
for the eleven months  
ended November 30,  
1919, before providing  
for federal  
taxes . . \$322,756.44

Lss added to  
reserve for  
federal

taxes . . . \$122,980.49	<u>199,775.95</u>
	\$412,501.31

Dividend paid February 15,

1919 . . . . .	<u>75,000.00</u>	<u>\$337,501.31</u>	<u>\$ 837,501.31</u>
			<u>\$1,532,087.79</u>

NOTE A.—Merchandise purchases in transit or in the house for spring of 1920 business aggregating \$488,061.50 are not included in the inventory or accounts payable.

We hereby certify that we have audited the books of account and record of the business of the Danner-Kraft Dry Goods Company, Camden, Arkansas, as of the close of business November 30, 1919, and that in our opinion, based upon the records submitted and the information furnished us, the foregoing Condensed Balance Sheet is drawn up so as to reflect correctly the financial position of the company at November 30, 1919.

AUDITORS

VII. ADDITIONAL MISCELLANEOUS DATA ON FILE, OCTOBER 18, 1919

B and M agencies report a good opinion of this concern. Their information indicates that the management is of good ability and that they have a live, capable, selling organization.

The high point of the company's debt (including both bills and accounts payable) was \$1,459,000 during 1918. The low point was 381M in the spring of the year. On December 31, the date of their statement, bills and accounts payable totaled \$1,040,000.

	December, 1916	1917	1918
Quick.....	1,046	1,273	1,824
Debt.....	441	620—tax 35M	1,170
Excess Quick....	605	653	654
Net Worth.....	655	707	712
Sales.....	1,668	2,626	3,303
Profits.....	84	165—after tax 35M	75—after tax res. 130M
Dividends.....	Not known	Not known	.....

Their sales for 1918 were \$3,303,000 on which they made profits—before taxes—of 205M about 6½ per cent on their sales. The profit *after taxes* was \$75,793.33. On February 18, 1919, a month after the statement they declared a dividend of 75M.

The R S Dry Goods Company, which must operate in much the same territory as the Danner-Kraft Dry Goods Company showed on November 30, 1918, a ratio of 1.62. Their sales were \$41,646,000. Profits \$1,194,000, after tax reserve of \$2,000,000. Their net profits, before taxes, were about 7½ per cent on sales.

E W Dry Goods Company shows a ratio of 1.63. Their sales for the fiscal year ending November 30, 1918, were \$41,000,000. Earnings \$3,287,000 or 8 per cent on their sales.

J V F Company statement of December 31, 1918, shows a ratio of 1.59. F & M Company statement of December 31, 1918, shows a ratio of 2.48. On sales, for that period of \$10,306,518 they made profits of \$1,003,979, 9.7 per cent on their sales. This profit of \$1,003,979 was before taxes, which, in the company's letter to us of July 14, they stated they figured at 408M.

B and M advise the company gets a line of 150M from the Chemical National, and the same amount from the First National Bank of New York, and 40M from the Exchange National of Camden, but they have no other data as to their lines from other banks. Indorsers are said to have an outside worth of 300M to 400M.

In the trade they are sold up to 40M on regular terms, and are prompt pay. It would be advisable for Mr. Abery to get information from Mr. Exeter of the R S Dry Goods Company who is a director of the Second National Bank, St. Louis, where the concern keeps an account, also from the Edgeworth Manufacturing Company and the E W Dry Goods Company, on the subject company.

The following is a record of the concern's net worth:

December, 1914	. . . . .	571,000
December, 1915	. . . . .	570,000
December, 1916	. . . . .	655,000
December, 1917	. . . . .	707,000
December, 1918	. . . . .	712,000

In four years they added 141M to their net worth, an average of 35M a year. In 1918 they paid a dividend of 74M, and apparently a substantial portion of their profits are distributed to stockholders.

The subject company, on sales of \$3,303,000, has merchandise of \$902,000 and receivables of \$745,000, they turned their merchandise  $3\frac{1}{2}$  times and their receivables  $4\frac{1}{2}$  times.

R S Dry Goods Company turned their merchandise  $4\frac{1}{2}$  times and their receivables 4 times.

E W Dry Goods Company turned their merchandise practically 6 times, and their receivables a little more than 5 times.

The liabilities of the company of \$1,170,000 compare with capital and surplus of \$712,000. In other words, the creditors of the company have 400M more in the business than the owners.

## QUESTIONS

1. What do you think of the personnel of the board of directors?
2. Study the financial history of the concern from 1910 on and draw up a statement of your general conclusion as to the progress of the company from 1910 to 1917.
3. How do you characterize the trade data contained in Dun's report for 1915?
4. What significant management fact is revealed in the Dun report of February 26, 1919?
5. Run through the data furnished by the various banks which have done business with this concern and note the unfavorable comments found. On the whole, do you think they stand well with their present banks?

6. What importance do you attach to the circular letter of November 22, 1918? What is the significance of that particular date in its bearing on the policy enunciated in the letter?
7. How much importance do you attach to the fact that the paper of the company is guaranteed by certain of the officials?
8. How much importance do you attach to the fact that in 1918 the company paid dividends of \$75,000?
9. Compare the significant items in the balance sheets of 1918 and 1919, and tell whether you think the condition at the latest date is a healthy one.
10. What are the points of chief interest in the latest statement?
11. Study the miscellaneous data on pages 579-80 and indicate what light it throws upon the data revealed in the financial statements.
12. What importance do you attach to the data on other dry goods companies?
13. Would you be willing to make this company a loan? Draw up a summary statement of the main points on which you base your judgment.
14. In case you are willing to take on this account, how large a loan would you be willing to make at this time?

HAROLD G. MOULTON

UNIVERSITY OF CHICAGO